

Message Text

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22

ACTION TRSE-00

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-07

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INFO AMCONSUL ADANA

AMCONSUL ISTANBUL

AMCONSUL IZMIR

UNCLAS SECTION 1 OF 2 ANKARA 6113

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SUBJECT: WORLD BANK/IMF ANNUAL MEETINGS

REF: STATE 184632

SUMMARY. TURKISH DELEGATION TO IBRD/IMF ANNUAL MEETINGS WILL BE HEADED EITHER BY FINANCE MINISTER ERGENEKON OR UNDER SECRETARY OF FINANCE ALPAT. GOT WILL PROVIDE EMBASSY LATER WITH LIST OF DELEGATES AND WILL INFORM US WHETHER TURKEY WILL MAKE ANY IMPORTANT PROPOSALS IN PLENARY OR TO BANK OFFICIALS, OR RAISE ANY ISSUES WITH US DEL. EMBASSY SUGGESTS THAT US MAY WISH TO TAKE UP WITH TURKS ON THIS OCCASION SEVERAL PROBLEMS AFFECTING US TRADE AND INVESTMENT. THESE CONCERN DELAYS IN AUTHORIZATION OF FOREIGN EXCHANGE PAYMENTS TO US SUPPLIERS; CANCELLATION OF 1968 DECREE AUTHORIZING INVESTMENT OF CPC INTERNATIONAL; DEFAULT BY GOT AGENCY ON CONTRACTS TO BUY WHEAT FROM THREE AMERICAN FIRMS; APPLICATION OF DISCRIMINATORY CRITERIA TO INTRODUCTION OF NEW DRUGS BY AMERICAN PHARMACEUTICAL COMPANIES AND UNECONOMIC CONTROLS OVZR PHARMACEUTICAL PRICES. END SUMMARY.

1. TURKISH FINANCE MINISTER YILMAZ ERGENEKON OR UNDER SECRETARY OF FINANCE SABAHATTIN ALPAT WILL HEAD TURKISH DELEGATION TO IBRD/ UNCLASSIFIED

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IMF ANNUAL MEETINGS IN MANILA, ACCORDING TO METIN KARACA, DIRECTOR,

INTERNATIONAL ECONOMIC AND FINANCIAL MATTERS, MFA. MINISTER WILL ATTEND IF COMPETING DUTIES PERMIT. DELEGATION WILL INCLUDE SEVERAL OTHERS FROM FINANCE MINISTRY, ONE PERSON FROM MFA, ONE OR TWO FROM CENTRAL BANK, AND ONE FROM STATE PLANNING ORGANIZATION. KARACA SAID THAT INDIVIDUALS HAVE NOT YET BEEN NAMED.

2. SIMILARLY, HE COULD NOT YET SAY WHAT PROPOSALS, IF ANY, GOT WAS LIKELY TO RAISE IN PLENARY WITH SENIOR BANK OFFICIALS, OR WITH US DEL. HE WILL PROVIDE RESPONSE ON THIS POINT AND PROVIDE LIST OF DELEGATES AS SOON AS POSSIBLE.

3. EMBASSY SUGGESTS US DEL TAKE ADVANTAGE OF MEETINGS TO DISCUSS WITH TURKS SEVERAL PROBLEMS HINDERNG US FIRMS IN TURKEY:

A. DELAYS IN AUTHORIZATION OF FOREIGN EXCHANGE PAYMENTS TO AMERICAN FIRMS. HAVING SUFFERED SHARP DROP IN FOREIGN EXCHANGE RESERVES (DOWN TO \$696 MILLION ON JULY 29) AND FACED WITH LARGE TRADE IMBALANCE, GOT HAS SLOWED FOREIGN PAYMENTS AS MEANS OF REDUCING TRADE DEFICIT AND IS JUGGLING CLAIMS OF COMPETING CREDITORS. PAYMENTS TO SOME AMERICAN SUPPLIERS HAVE BEEN LONG OVERDUE. DELAYS HAVE SOMETIMES TIED UP SUBSTANTIAL PORTIONS OF WORKING CAPITAL OF AMERICAN COMPANIES AND HAVE ALWAYS CREATED UNCERTAINTY WITH REGARD TO INTENTIONS OF TURKISH GOVERNMENT. INVARIABLY TURKISH BUYER WHEN QUERIED BY AMERICAN SELLER, WILL REAFFIRM ITS CONTINUING INTEREST IN OBTAINING EQUIPMENT ORDERED AND WILL BE FOUND TO HAVE DEPOSITED WITH TURKISH CENTRAL BANK LOCAL CURRENCY EQUIVALENT OF REQUIRED PAYMENTS. DESPITE REPEATED ASSURANCES FROM FINANCE MINISTRY TO TURKISH PURCHASERS, AMERICAN SUPPLIERS, AND EMBASSY THAT FOREIGN EXCHANGE TRANSFERS WOULD SHORTLY BE AUTHORIZED, THERE HAVE USUALLY BEEN PROTRACTED WAITS BEFORE THESE WERE IN FACT MADE. OUTSTANDING CASES:

(1) AMERICAN EQUIPMENT COMPANY (AMECO), BOCA RATON, FLORIDA. ALTHOUGH FINANCE MINISTRY AUTHORIZED TRANSFER OF DOWN PAYMENT OF \$155,560 ON APRIL 1, FOR THREE LOCOMOTIVE CRANES SPECIALLY CONSTRUCTED

FOR KARABUK WORKS OF TURKISH IRON AND STEEL COMPANY, WHICH IS PARTLY OWNED BY GOVERNMENT, AND ALTHOUGH KARBUK DEPOSITED LOCAL CURRENCY EQUIVALENT IN CENTRAL BANK MAY 15, TRANSFER HAS NOT YET BEEN AUTHORIZED. COST OF CONSTRUCTING CRANES HAS ABSORBED WORKING CAPITAL OF THIS SMALL AMERICAN EXPORT MANAGEMENT FIRM, ACTING ON BEHALF OF UNCLASSIFIED

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OHIO LOCOMOTIVE CRANE COMPANY. CONSTRUCTION OF CRANES COMPLETED MARCH 1976. ORDER DATED APRIL 7, 1975.

(2) GENERAL ELECTRIC CORPORATION. GE HAS BEEN KEPT WAITING TO BE PAID FOR OVERHAUL OF DC-10 ENGINES AND OTHER AVIATION SERVICES FOR TURKISH AIRLINES (THY), WHICH HAS MAJORITY GOT OWNERSHIP. RATE OF ACCUMULATION OF DEBT TO GE CURRENTLY EXCEEDS RATE OF REPAYMENT AND AMOUNT OUTSTANDING IS INCREASING. TOTAL SUM OWED GE BY THY WAS

EXPECTED TO REACH ABOUT \$2.4 MILLION BY AUGUST 6. EMBASSY AND
THY HAVE RECEIVED VERBAL ASSURANCES FROM FINANCE MINISTRY THAT IT
WILL SPEED UP TRANSFERS "TO SOME EXTENT" AND REDUCE BACKLOG.
(STATE 177104, ISTANBUL 2728, ANKARA 5688, ISTANBUL 2812).

(3) HYCEL INCORPORATED, HOUSTON, TEXAS. HYCEL EUROPE B.V., REIMS,
FRANCE, SUBSIDIARY OF HYCEL, INC., HOUSTON, RECEIVED ORDER FOR
ELECTRONIC BIOMEDICAL EQUIPMENT WORTH ABOUT \$200,000 FROM TURKISH
DEFENSE MINISTRY. FIRM WAS INFORMED THAT AT MEETING JUNE 8-9
TURKISH OFFICIALS OF MINISTRIES OF DEFENSE AND FINANCE REACHED
DECISION TO ALLOW SHORTLY TRANSFERS AGAINST LETTER OF CREDIT OPENED
FOR DEFENSE MINISTRY MEDICAL EQUIPMENT TENDERS. PAYMENT HAS NOT YET
BEEN MADE.

B. CONCELLATION OF DECREE AUTHORIZING INVESTMENT OF CPC INTER-
NATIONAL. IN 1973 TURKISH COUNCIL OF MINISTERS CANCELLED 1968
DECREE ISSUED UNDER LAW 6224 APPROVING INVESTMENT OF CPC INTERNATIONAL

ACTION WAS TAKEN THROUGH NO FAULT OF CPC OR ITS TURKISH AFFILIATE,
BSEIN VE MISIR SANAYI (BEMIS). MINISTRY OF FINANCE HAS ISSUED ORDERS
FOR LIQUIDATION OF INVESTMENT OF CPC INTERNATIONAL AND REQUESTED
THAT PROCEEDS BE DEPOSITED IN BLOCKED ACCOUNT IN CENTRAL BANK.
COMPANY HOPES TO BE ALLOWED SUFFICIENT TIME TO OBTAIN NEW INVESTMENT
DECREE ON TERMS SATISFACTORY TO GOT. (STATE 93433, STATE 138956,
ANKARA 4272, ANKARA 3344).

C. DEFAULT ON WHEAT CONTRACTS BY GOT AGENCY. IN 1975 STATE SOIL
PRODUCTS OFFICE (TOPRAK MAHSULLERI OFISI - TMO) REFUSED TO HONOR ITS
FIRM AND VALID CONTRACTS TO PURCHASE TOTAL OF 500,000 MT WHEAT
FROM CONTINENTAL GRAIN, CARGILL, AND BUNGE. BEFORE DELIVERY,
SUPPLY OF TURKISH GROWN WHEAT HAD BECOME PLENTIFUL AND WHEAT PRICES
HAD FALLEN. GOT HAS APPEALED TO BRITISH COURT THE ARBITRATION AWARD
OF \$44 MILLION GRANTED TO CONTINENTAL GRAIN BY GRAIN AND FEED
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TRADE ASSOCIATION IN 1975. GOT HAS SHOWN NO READINESS TO DISCUSS
PROPOSALS OFFERED BY ALL THREE COMPANIES FOR SETTLEMENT OF THEIR
CLAIMS. (ANKARA 3344, ANKARA 5835).

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D. IMPOSITION OF PRICE CONTROLS WHICH DID NOT TAKE SUFFICIENTLY INTO ACCOUNT RISING COSTS FOR WAGES, MATERIALS AND EMPLOYEE SOCIAL BENEFITS AND, IN ADDITION, REQUIREMENT THAT AMERICAN FIRMS MEET MORE RIGOROUS CRITERIA FOR INTRODUCTION OF NEW PHARMACEUTICAL PRODUCTS IN TURKEY THAN TURKISH FIRMS MUST MEET. BECAUSE OF THESE CIRCUMSTANCES, TWO US PHARMACEUTICAL FIRMS, ABBOTT AND SQUIBB, RECENTLY DECIDED TO LIQUIDATE THEIR INVESTMENTS AND LEAVE TURKEY. TWO OTHER US INVESTORS, PFIZER AND WYETH, ARE SERIOUSLY CONCERNED ABOUT THESE DIFFICULTIES.

4. IN DISCUSSING THESE PROBLEMS WITH TURKISH DELEGATION, US DEL MAY WISH TO MAKE FOLLOWING GENERAL POINTS:

--USG FULLY AWARE THAT GOT IS METICULOUSLY MEETING ITS LOAN OBLIGATIONS, PERMITTING REPATRIATION OF PROFITS AND LICENSING FEES, AND SATISFYING PROMPTLY AND FULLY WIDE VARIETY OF ITS OTHER FINANCIAL OBLIGATIONS.

--HOWEVER, EXTENDED DELAYS IN TRANSFERRING FOREIGN EXCHANGE TO PAY AMERICAN SUPPLIERS CAN ERODE CONFIDENCE OF BUSINESS AND BANKS IN TURKISH CREDIT-WORTHINESS.

--OTHER BUSINESS PROBLEMS RECENTLY ENCOUNTERED BY AMERICAN COMPANIES--IF ALLOWED TO CONTINUE UNRESOLVED, CAN UNDERMINE COMMERCIAL RELATIONS WITH US.

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PANIES -- CANCELLATION OF GOVERNMENT DECREE AUTHORIZING AN INVESTMENT, DEFAULT BY A GOVERNMENT AGENCY ON ITS CONTRACTUAL OBLIGATION TO BUY WHEAT FROM THREE US FIRMS, AND PARTICULAR DIFFICULTIES ENCOUNTERED BY AMERICAN PHARMACEUTICAL COMPANIES--IF ALLOWED TO CONTINUE UNRESOLVED, CAN UNDERMINE COMMERCIAL RELATIONS WITH US.

--AS FRIEND OF TURKEY, USG IS CONCERNED THAT TURKEY, BY SUCH ACTIONS, IS EARNING REPUTATION FOR NOT LIVING UP TO ITS INTERNATIONAL COMMITMENTS.

--ALIENATION OF FOREIGN BUSINESS COULD COMPLICATE DOMESTIC ECONOMIC DEVELOPMENT EFFORTS OF TURKISH GOVERNMENT.

--FAILURE TO ARRIVE AT SATISFACTORY AGREEMENT WITH AMERICAN GRAIN COMPANIES COULD TRIGGER APPLICATION OF CERTAIN US STATUTES, NOTABLY SECTION 502(B)(6) OF TRADE ACT OF 1974, RELATING TO GENERALIZED PREFERENCES.

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